

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>City of Pottersville - TIFA</b>		County <b>Eaton</b>
Audit Date <b>6/30/03</b>	Opinion Date <b>8/25/04</b>	Date Accountant Report Submitted to State: <b>10/14/04</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

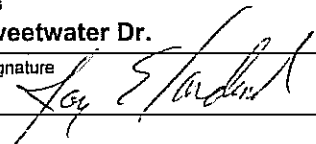
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>Cardinal Tepatti &amp; Co., P.C.</b>			
Street Address <b>11966 Sweetwater Dr.</b>		City <b>Grand Ledge</b>	State <b>MI</b>
		ZIP <b>48837</b>	
Accountant Signature 			Date <b>10/14/04</b>

**CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY**

EATON COUNTY

AUDIT REPORT

AS OF JUNE 30, 2003

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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
City of Potterville  
Tax Increment Finance Authority  
Potterville, MI 48876

We have audited the financial statements of the City of Potterville Tax Increment Finance Authority, a component unit of the City of Potterville, Potterville, Michigan, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Potterville Tax Increment Finance Authority, a component unit of the City of Potterville, Potterville, Michigan, as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Cardinal Tepatti & Co. P.C.*

Grand Ledge, Michigan  
August 25, 2004

Randall L. Tepatti, *Registered Representative*

Securities offered through H.D. Vest Investment Securities<sup>SM</sup>, Inc., Member SIPC. Advisory Services offered through H. D. Vest Advisory Services<sup>SM</sup>, Non-bank subsidiaries of Wells, Fargo & Company  
6333 North State Highway 161, Suite 400, Irving, Texas 75038 (972) 870-6000

**CITY OF POTTERVILLE**  
**TAX INCREMENT FINANCE AUTHORITY**  
**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 2003**

	Governmental Fund Types			Account Groups	Total (Memorandum Only)
	Special Revenue	Debt Service	Capital Projects	General Long-Term Debt	
<b>ASSETS</b>					
Cash	\$	\$ 62,125	\$ 309,182	\$	\$ 371,307
Amount Available in Debt Service Funds				62,125	62,125
Amount to be Provided for Retirement of General Long Term Debt				467,875	467,875
<b>Total Assets</b>	<b>\$ -0-</b>	<b>\$ 62,125</b>	<b>\$ 309,182</b>	<b>\$ 530,000</b>	<b>\$ 901,307</b>
<b>LIABILITIES AND FUND EQUITY</b>					
<b>Liabilities:</b>					
Due To Primary Government	\$	\$	\$ 1,028	\$	\$ 1,028
Bonds Payable - Current				40,000	40,000
Bonds Payable - Long-Term				490,000	490,000
<b>Total Liabilities</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 1,028</b>	<b>\$ 530,000</b>	<b>\$ 531,028</b>
<b>Fund Balances:</b>					
Reserved for Debt Service	\$	\$ 62,125	\$	\$	\$ 62,125
Unreserved			308,154		308,154
<b>Total Fund Balance</b>	<b>\$ -0-</b>	<b>\$ 62,125</b>	<b>\$ 308,154</b>	<b>\$ -0-</b>	<b>\$ 370,279</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ -0-</b>	<b>\$ 62,125</b>	<b>\$ 309,182</b>	<b>\$ 530,000</b>	<b>\$ 901,307</b>

**CITY OF POTTERVILLE**  
**TAX INCREMENT FINANCE AUTHORITY**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types			Total (Memorandum Only)
	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>				
Taxes	\$	\$ 42,594	\$ 122,359	\$ 164,953
Interest		541	1,921	2,462
Total Revenues	\$ -0-	\$ 43,135	\$ 124,280	\$ 167,415
<b>EXPENDITURES</b>				
Current:				
Public Works	\$ 4,169		\$ 19,710	\$ 23,879
Debt Service:				
Principal		35,000		35,000
Interest and Fiscal Charges		41,238		41,238
Total Expenditures	\$ 4,169	\$ 76,238	\$ 19,710	\$ 100,117
Excess of Revenues Over (Under) Expenditures	\$ (4,169)	\$ (33,103)	\$ 104,570	\$ 67,298
Other Financing Sources (Uses):				
Operating Transfers In	\$ 4,169	\$ 31,058		\$ 35,227
Operating Transfers Out			(35,227)	(35,227)
Operating Transfers to Primary Gov't		0	(16,624)	(16,624)
Total Other Financing Sources (Uses)	\$ 4,169	\$ 31,058	\$ (51,851)	\$ (16,624)
Excess of Revenues and Other Sources Over (Under) Expenditures & Other Uses	\$ -0-	\$ (2,045)	\$ 52,719	\$ 50,674
Fund Balances - July 1	-0-	64,170	255,435	319,605
Fund Balances - June 30	\$ -0-	\$ 62,125	\$ 308,154	\$ 370,279

**CITY OF POTTERVILLE**  
**TAX INCREMENT FINANCE AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavor)
REVENUES:			
Taxes	\$	\$	\$
Interest			
Total Revenues	\$ -0-	\$ -0-	\$ -0-
EXPENDITURES:			
Current:			
Public Works	\$ 6,580	\$ 4,169	\$ 2,411
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	\$ 6,580	\$ 4,169	\$ 2,411
Excess of Revenues Over (Under) Expend.	\$ (6,580)	\$ (4,169)	\$ 2,411
Other Financing Sources (Uses):			
Operating Transfers In	-0-	4,169	4,169
Excess of Revenues and Other Sources Over (Under) Expenditures & Other Uses	\$ (6,580)	\$ -0-	\$ 6,580
Fund Balances - July 1		-0-	
Fund Balances - June 30		\$ -0-	

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Potterville, established the City of Potterville Tax Increment Finance Authority (TIFA) on July 11, 1984, as authorized pursuant to P.A. 450 of 1980, as amended. The TIFA was established for the purpose of promoting growth and development, and for other purposes as set forth in P.A. 450 of 1980, as amended.

The accounting policies of the TIFA conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

The financial statements of the City of Potterville Tax Increment Finance Authority, a component unit of the City of Potterville, present only the funds and account groups of the TIFA and are not intended to present fairly the financial position and results of operations of the City of Potterville, Michigan, in conformity with generally accepted accounting principles.

Fund Accounting

The accounts of the TIFA are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three generic fund types and one broad fund category as follows:

**Governmental Fund Types**

Special Revenue Funds - Special Revenues Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. This fund accounts for the operating costs of the TIFA.



CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Debt Service Fund - Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.

Capital Project Funds - These funds are used to account for financial resources to be used for the acquisition of and construction of major capital facilities (other than those financed by proprietary funds).

**Total Column on Combined Statement - Overview**

The total column on the Combined Statements - Overview is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund elimination's have not been made in the aggregation of this data.

Basis of Accounting

The accrual basis of accounting is used by the Enterprise and Internal Service Funds. All governmental funds utilize the modified accrual basis of accounting. Modifications of such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31, and the related property taxes become a lien the following year. These taxes are due on September 30, with the final collection date on February 28, before they are added to the County tax rolls.

- b. Interest income on special assessments receivable is not accrued until its due date.
- c. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Basis of Accounting (Cont'd)

- d. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- e. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Budget Policies

Budgets for the special revenue fund, and debt service fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted are as amended by the TIFA Board.

In the body of the financial statements, the TIFA's actual expenditures and budgeted expenditures for the budgetary funds have been shown on the activity basis. The approved budgets of the TIFA for these budgetary funds were adopted to the line item level.

Cash

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

Investments

Investments are stated at cost.

Long-term liabilities expected to be financed from governmental fund types are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

This account group is not a "fund." It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

Interfund Transactions

During the course of normal operations, the Authority has numerous transactions between funds, including expenditures and transfers or resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. The amounts recorded as subsidies, advances or equity contributions are determined by Authority management.

NOTE 2 - CASH

Deposits are carried at cost. Deposits of the TIFA are at one bank in the name of the City Treasurer. Act 217, PA 1982, authorizes the TIFA to deposit and invest in the accounts of the Federally insured banks, insured credit unions, and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States Government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security the form of collateral, surety bond, or other forms of the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan. The TIFA's deposits are in accordance with statutory authority.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH (Cont'd)

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the TIFA's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 100,000
Uninsured and uncollateralized	271,517
Total	<u>\$ 371,517</u>

At year end, the balance sheet carrying amount of deposits was \$371,307.

NOTE 3 - CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

The following is a summary of notes payable, capital lease obligations, land contracts, and general obligation bond transactions of the TIFA for the year ended June 30, 2003:

	<u>Balance 07/01/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 06/30/03</u>
General Obliga- tion Bonds	\$410,000	\$ -0-	\$ 20,000	\$390,000
General Obliga- tion Bonds	<u>155,000</u>	<u>-0-</u>	<u>15,000</u>	<u>140,000</u>
Total	<u>\$565,000</u>	<u>\$ -0-</u>	<u>\$ 35,000</u>	<u>\$530,000</u>

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CHANGE IN GENERAL LONG-TERM DEBT ACCOUNT GROUP (Cont'd)

The General long-term debt as of June 30, 2003, is as follows:

\$270,000, 1988 Series, Limited Tax Development Bonds, due in annual installments at 8.5 - 9.0% interest	\$140,000
\$500,000, 1994 Series, Tax Increment Revenue Bonds, due in annual installments at 4.6 - 7.125% interest	<u>390,000</u>
Total	<u>\$530,000</u>

The annual principal and interest requirements to amortize notes payable, capital lease obligations, land contracts, and general obligation bonds as of June 30, 2003, is as follows:

General Obligation Bonds

Year Ended June 30	Total	Principal	Interest
2004	\$ 79,036	\$ 40,000	\$ 39,036
2005	75,056	40,000	35,056
2006	71,946	40,000	31,946
2007	78,424	50,000	28,424
2008	74,486	50,000	24,486
2008-2015	<u>415,583</u>	<u>310,000</u>	<u>105,583</u>
Total	<u>\$ 794,531</u>	<u>\$ 530,000</u>	<u>\$ 264,531</u>

NOTE 4 - TAXES AND SPECIAL ASSESSMENTS

The City of Potterville - TIFA is supported by taxes captured within the TIFA district. The current state equalized value and taxable value of properties within the TIFA district total \$3,424,166. These captured taxes will generate approximately \$211,824 for the TIFA operations and debt retirement

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RISK FINANCING

The City of Potterville - TIFA is exposed to various risks of loss related to theft of, damage to, and distribution of assets; errors and omissions; and injuries to employees. The City of Potterville - TIFA participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensation. Settlement amounts have not exceeded insurance coverage for the current or three prior years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property Pool (Pool) pursuant to the provisions of Act 138 of the Michigan Public Acts of 1982. The Pool is to provide for joint and cooperative action relative to Members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities with the state.

The Michigan Municipal Liability and Property Pool program operates as a common risk-sharing management program for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 6- NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The City of Potterville -TIFA is required to implement this standard for the fiscal year ending June 30, 2004. The City of Potterville - TIFA has not yet determined the full impact that the adoption of GASB Statement 34 will have on the financial statements.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
SCHEDULE OF INDEBTEDNESS  
JUNE 30, 2003

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity Amounts</u>	<u>Outstanding at 6/30/03</u>
<u>1988 Limited Tax Development Bonds</u>						
Subject to early redemption at	07/01/88	\$270,000				
prices specified on the faces of			9.00	10/1/03-05	3 20,000	60,000
the bonds			9.00	10/1/06-07	2 25,000	50,000
			9.00	10/1/08	1 30,000	30,000
						<u>\$ 140,000</u>
<u>1994 Tax Increment Revenue Bonds</u>						
Subject to early redemption at	12/21/94	\$500,000				
prices specified on the faces of						
the bonds			6.30	11/1/03	4 5,000	20,000
			6.50	11/1/04	4 5,000	20,000
			6.60	11/1/05	4 5,000	20,000
			6.70	11/1/06	5 5,000	25,000
			6.80	11/1/07	5 5,000	25,000
			6.90	11/1/08	5 5,000	25,000
			7.00	11/1/09	6 5,000	30,000
			7.10	11/1/10	6 5,000	30,000
			7.10	11/1/11	7 5,000	35,000
			7.10	11/1/12	7 5,000	35,000
			7.10	11/1/13	8 5,000	40,000
			7.10	11/1/14	8 5,000	40,000
			7.125	11/1/15	9 5,000	45,000
						<u>\$ 390,000</u>